Trade Project

# USAID Trade Project

## Quarterly Trade Bulletin

*Fiscal Year 2014, Quarter 3*

*(January—March, 2014)*

**Prepared for**

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# Trade Bulletin

## Trade Project

## Introduction

Contents



The Trade Bulletin is a quarterly report prepared by the USAID Pakistan Trade Project to inform public and private sector stakeholders of Pakistan's economic performance and international trade environment.

The areas of focus are:

- **Macroeconomic Outlook:** General economic indicators to ascertain the state of the economy
- **Developments in the Trade Sector:** Trade-related news from the review period that is relevant for Pakistan
- **Pakistan Trade Overview:** Pakistan's trade flows with primary trading partners, and a regional overview of exports and imports
- **Trade in Services:** Summary of imports and exports in services, a primary contributor to Pakistan's gross domestic product (GDP)
- **Import and Export Markets:** Analysis of trends to ascertain the value and potential of import and export markets for Pakistan
- **Export and Import of Goods:** Analysis of the value of goods exported from and imported to Pakistan
- **Specific Trade Trends of Regional Trade Markets**: Pakistan's trade with the South Asian Association of Regional Cooperation (SAARC) members, and with Central Asia. Analysis of developments, trends, and trade expansion measures to Central Asia

The Trade Project collects secondary data from various sources that include the State Bank of Pakistan (SBP), the Pakistan Bureau of Statistics (PBS), and the World Bank. The Trade Project calculates all figures based on SBP data, unless otherwise cited. In some instances, SBP data is provisional and subject to revisions. Additional sources include news sources, local and international journals, research papers, and other publications.

The term Fiscal Year 2014 (FY14) refers to Pakistan's fiscal year: the period from July 1, 2013 - June 30, 2014. This report is for FY14 Quarter 3 (FY14 Q3) which is the period from January 1, 2014 to March 31, 2014. Fiscal Year 2013 Quarter 3 (FY13 Q3) refers to the period from January 1, 2013 to March 31, 2013, used for year-over-year (YoY) comparisons within this report. Fiscal Year 2005 Quarter 3 (FY05 Q3) refers to the period from January 1, 2005 to March 1, 2005, and is used as the base-year for longer term analysis. Quarter-over-Quarter (QoQ) analysis is performed comparing the preceding quarter to the current quarter: FY14 Q2 (October 1, 2013 – December 31, 2013) to FY14 Q3.

## Quarterly Review — January to March 2014

A summary of the macroeconomic and trade indicators provide an overview of Pakistan's economic outlook in FY14 Q3:

- The International Monetary Fund (IMF) revised the GDP growth forecast for FY14 to 3.1 % from 2.50 % due to improved performance of the manufacturing and services sector. [i]
- The current account balance decreased from a deficit of USD 385 million in FY14 Q2 to a deficit of USD 416 million in FY14 Q3. [ii]
- Inflation, or Consumer Price Index (CPI), increased from 7.37% in FY13 Q3 to 8.10% in FY14 Q3. [iii]
- The trade account deficit stands at USD 3.97 billion for FY14 Q3 compared to USD 3.88 billion in FY13 Q3. [iv]
- Foreign exchange reserves decreased from USD 12.25 billion in FY13 Q3 to USD 10.01 billion in FY14 Q3. [v]
- The average month-end floating exchange rate was PKR 97.99 to USD 1.00 in March 2014 . The quarterly average exchange rate was PKR 102.74 to USD 1.00 in FY14 Q3. [vi]
- In FY14 Q3, Pakistan's top 5 export destinations accounted for 43.72% of total export value, and the top 10 export destinations accounted for 58.47%, highlighting Pakistan's undiversified export markets in FY13 Q3 the top 5 and top 10 export destinations accounted for 45.25% and 59.21% of total export value, respectively. [vii]
- Pakistan's import sources are similarly undiversified. In FY14 Q3 the top 5 import countries accounted for 55.15% of total import value and the top 10 import countries accounted for 73.09%. In FY13 Q3 the top 5 and top 10 import countries accounted for 54.87% and 75.40% of total import value, respectively. [viii]
- In FY14 Q3 the top five product exports, by value, include rice (USD 653.52 million), cotton cloth (USD 638.44 million), knitwear (USD 548.86 million), bed-wear (USD 520.71 million) and ready-made garments (USD 482.62 million). [ix]
- In FY14 Q3, the top five products imported by value include petroleum products (USD 2.05 billion), crude petroleum (USD 1.43 billion), palm oil (USD 433.45 million), plastic materials (USD 430.03 million) and iron & steel (USD 366.95 million). [x]

*The goal of the **Trade Project** is to collaborate with the Government of Pakistan and the private sector to resolve trade challenges and support 'second generation' trade reform through the provision of technical assistance. Specifically, the project aims to encourage improvements in customs and trade facilitation, eliminate anti-export bias in trade policy, and enable increased bilateral and regional trade with Pakistan's neighbors through the facilitation of trade and transit agreements and border improvements.*

## Macroeconomic Outlook

In the third quarter of Fiscal Year 2014, Pakistan's economy continued to face challenges including security conditions, and risks to the implementation of structural reforms with respect to reserve accumulation strategy, privatization inflows and broadening of the tax net. External vulnerabilities with respect to oil price shock and variance in remittances from Gulf States persisted. [xi] The IMF, however, revised the GDP growth forecast for the fiscal year from 2.5 % to 3.1 % due to improved performance of the manufacturing and services sector. [xii] The IMF expects the growth rate to rise to 3.7 % for FY 2015 as a result of structural adjustments to address electricity shortages, improvements in revenue generation and collection, and an improved investment climate.

**Table 1: Forecasted GDP Growth Rate for Developing Asian Countries in 2014**

| Pakistan | India | Sri Lanka | Bangladesh | Afghanistan |
|---|---|---|---|---|
| 3.1% | 5.4% | 7.0% | 6.0% | 3.2% |

***Source:*** *International Monetary Fund*

In September 2013, an Extended Agreement under the Extended Fund Facility for Pakistan was approved by the IMF, which promised SDR[1] 4,393 million over a period of 36 months. SDR 720 million have been disbursed under this program since September 2013. A second review of Pakistan's performance on reforms and structural adjustments was completed in March 2014, followed by an additional disbursement of SDR 360 million. The review concluded that Pakistan's performance has been satisfactory across all performance criteria, but noted that the GoP must further reduce its borrowing from the SBP to meet all requirements. According to the IMF, the GoP must continue to address issues such as security problems, energy shortages, and inadequate tax collection to propel continued growth.

**Doing Business Index:** The World Bank ranks countries on their ease of doing business through its annual *Doing Business Index.*[2] The indicator averages a number of equally weighted topics (starting a business, construction permits, registering property, access to electricity and credit, investor protections, paying taxes, cross-border trade, contract enforcement, and resolving insolvency). Of the 189 countries surveyed for the 2014 *Index*, Pakistan was ranked 110 with a Distance to Frontier[3] (DTF) score of 57.93. In 2013, Pakistan was ranked 107 of 185 countries, with a DTF score of 57.76. Pakistan is ranked fourth in South Asia, behind Sri Lanka, Maldives and Nepal, and ahead of Bangladesh, India, Bhutan, and Afghanistan.

### Foreign Investment

Foreign Direct Investment[4] (FDI) inflows in Pakistan were recorded at USD 467.89 million in FY14 Q3 compared with USD 502.24 million in FY13 Q3, a decrease of 6.84%. This decline was largely attributed to the prevailing security situation, power and gas outages, and macroeconomic conditions. [xiv] FDI outflows in Pakistan were recorded at USD 218.31 million in FY14 Q3, compared to USD 439.98 million in FY13 Q3, a decrease of 50.38%. Pakistan's top five sources of and destinations for FDI are summarized in **Table 2.**

**Table 2: Pakistan's Top 5 FDI Sources & Destinations (USD millions)**

| FDI Inflow Sources | | FDI Outflow Destinations | |
|---|---|---|---|
| **Country** | **FY14 Q3** | **Country** | **FY14 Q3** |
| Hong Kong | 87.48 | United Arab Emirates | 38.79 |
| Switzerland | 71.02 | Saudi Arabia | 19.20 |
| United States | 43.72 | United Kingdom | 17.64 |
| United Kingdom | 43.10 | China | 15.79 |
| United Arab Emirates | 39.92 | Switzerland | 15.52 |
| Rest of the World | 182.65 | Rest of the World | 111.37 |
| **Total FDI Inflow** | **467.89** | **Total FDI Outflow** | **218.31** |

***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**Table 3** below provides the top five sectors for Pakistan's FDI inflows and outflows for FY14 Q3.

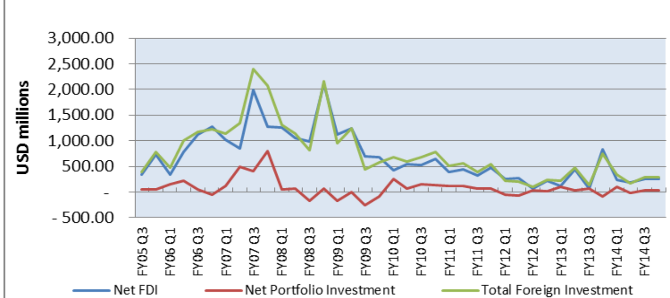
**Table 3: Top 5 Sectors for Pakistan's FDI Inflows and Outflows (USD millions)**

| FDI Inflow Sectors | | FDI Outflow Sectors | |
|---|---|---|---|
| **Sector** | **FY14 Q3** | **Sector** | **FY14 Q3** |
| Oil & Gas Explorations | 140.38 | Communications | 69.13 |
| Financial Business | 59.36 | Power | 32.15 |
| Power | 57.86 | Trade | 20.59 |
| Communications | 47.23 | Financial Business | 19.82 |
| Food | 38.93 | Tobacco & Cigarettes | 15.00 |
| **Total FDI Inflow** | **467.89** | **Total FDI Outflow** | **218.31** |

***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

Pakistan's Foreign Portfolio Investment (FPI)[5] recorded a net surplus of USD 33.46 million in FY14 Q3, compared to a surplus of USD 71.60 million in the corresponding period last year, reflecting a YoY decline of 53.27%. **Figure 1** provides an overview of Pakistan's foreign investment position since FY05 Q3.

**Figure 1: Foreign Investment (Net FDI, Net PI, Total FDI)**




***Source:*** ***Data from State Bank of Pakistan, calculations performed by Trade Project***

As part of an agreement with the IMF, 31 key Public Sector Enterprises (PSEs) are planned to be privatized within the next 3 to 5 years.[6] A majority of the resulting privatization revenues will come from capital market transactions. These transactions can significantly increase future FDI inflow, thus easing fiscal financing and improving Pakistan's Balance of Payments (BoP) position. [XV]

**1** "The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies". International Monetary Fund, https://www.imf.org/external/np/exr/facts/sdr.HTM (accessed February 13, 2014)

**2** The Doing Business Index can be accessed at http://www.doingbusiness.org/rankings

**3** "This measure shows the distance of each economy to the 'frontier'. The frontier represents the highest performance observed for each of the indicators across all economies measured in *Doing Business* since the inclusion of the indicator. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier." *For additional detail on the DTF score, please see http://www.doingbusiness.org/rankings*

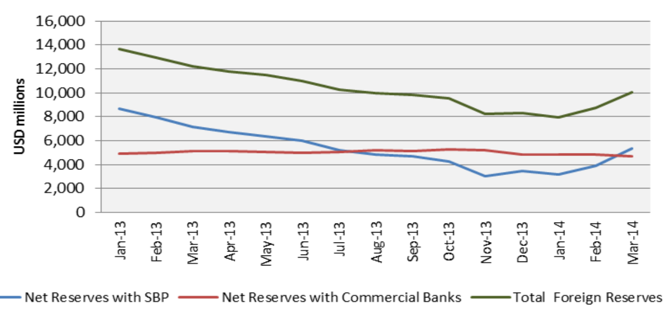
**4** "Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 % or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments." The World Bank. The World Bank - Data. http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD (accessed February 18, 2014)

**5** "FPI (Foreign Portfolio Investment) *"Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors"*. The World Bank. *The World Bank - Data.* http://data.worldbank.org/indicator/BX.PEF.TOTL.CD.WD (accessed February 18, 2014)

**6** For the list of 31 PSEs targeted for privatization, please see: International Monetary Fund. First Review Under the Extended Arrangement. IMF Country Report, Washington DC: IMF Publication Services, 2014. Available at: http://www.imf.org/external/pubs/ft/scr/2014/cr1401.pdf

***Foreign Exchange Reserves:*** Net reserves of foreign exchange with SBP and commercial banks were recorded at USD 10.01 billion in FY14 Q3, compared to USD 12.25 billion in FY13 Q3. Stagnant exports, declining FDI, and debt repayment to the IMF and other international lenders are among the factors contributing to the decline in Pakistan's foreign reserves. [xvi]

**Figure 2: Pakistan Foreign Exchange Reserves**

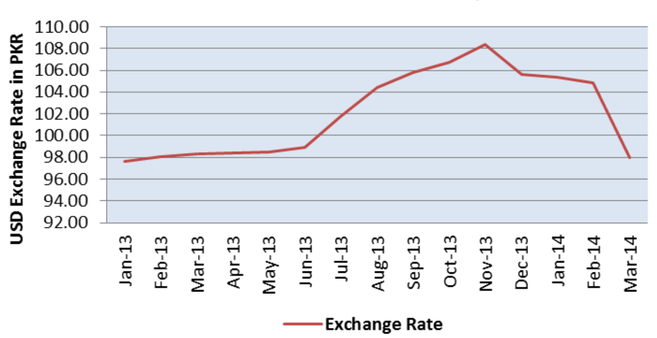



**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

As of March 31, 2014, the State Bank of Pakistan (SBP)'s 'Official Reserve Assets', in addition to liquid foreign reserves, included SDR 836 million, gold at USD 2.68 billion, other reserve assets of USD 1.33 million, and other foreign currency assets of USD 108 million. [xvii]

The **Value of the Pakistani Rupee** (PKR) appreciated 8.21%, from PKR 105.40 to PKR 97.40 against the US Dollar between March 4 and March 12, 2014, its strongest rally in 30 years. [xviii] The average quarterly exchange rate for FY14 Q3 was PKR 102.74 to USD 1.00, a depreciation of 4.81% compared to FY13 Q3 when the average was PKR 98.02 to USD 1.00.

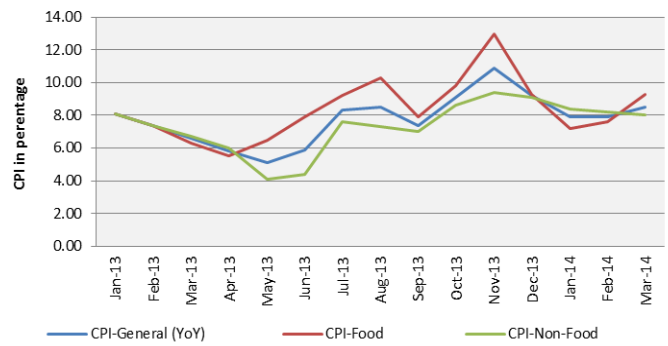
**Figure 3: Exchange Rate** (USD to PKR)




***Source:* *Data from State Bank of Pakistan, calculations performed by Trade Project***

**Inflation,** measured through the quarterly-averaged Consumer Price Index (CPI)[7], increased from 7.37% in FY13 Q3 [xix] to 8.10% in FY14 Q3 primarily due to increases in the electricity tariff and price of petroleum. The CPI-food inflation remained higher than the inflation of other items. Despite the YoY rise in inflation, a QoQ comparison reveals that inflation has declined from 9.73% in FY14 Q2 to 8.10% in FY14 Q3, which is close to the 8% projected inflation target for FY14 set by the GoP. [xx]

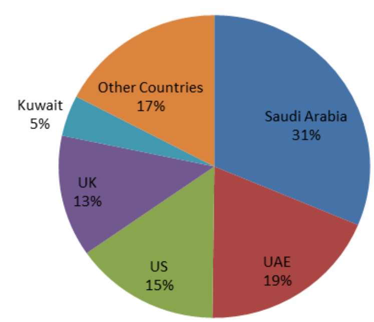
**Figure 4: Consumer Price Index**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

**Remittances** in FY14 Q3 were recorded at USD 3.79 billion compared to USD 3.24 billion in FY13 Q3. [xxi] The top five origins of remittance transfers to Pakistan were Saudi Arabia, United Arab Emirates (UAE), United States (US), United Kingdom (UK), and Kuwait, collectively accounting for 82.65% of the total remittances to Pakistan. [xxii]

**Figure 5: Sources of Foreign Remittances**




**Source**: *Data from State Bank of Pakistan, calculations performed by Trade Project*

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**7**"Consumer Price Index (CPI) is considered the most common measure of general inflation. It measure changes in the cost of buying a representative fixed basket of goods and services and generally indicates inflation rate in the country." Pakistan Bureau of Statistics. "PBS Price Statistics." *http://www.pbs.gov.pk.* http://www.pbs.gov.pk/sites/default/files/price_statistics/methodology_price.pdf (accessed February 17, 2014)

### Loan from Saudi Arabia and Pakistan Foreign Reserves:

In February 2014, Pakistan received a USD 1.5 billion loan from Saudi Arabia, although some government officials referred to the money as 'a gift from Saudi Arabia for the people of Pakistan'. No further details could be obtained from officials of either side on the 'terms & conditions' tied to the amount granted / lent. The money was accounted for in an account known as the Pakistan Development Fund (PDF) established to channel assistance money from "friendly countries" including Saudi Arabia and the UAE. This assistance is understood to be part of a commitment totaling USD 3 billion. Officials have stated that these funds will be used to help Pakistan maintain foreign exchange reserves, meet debt-service obligations and undertake large energy and infrastructure projects. This assistance also resulted in a sharp 8.21% appreciation of the Pakistani rupee from 105.40 to 97.40 PKR against the USD between March 4 and 12, 2014. This was the rupee's strongest rally in 30 years. [xxiii]

The Finance Ministry revealed that after this latest infusion of funds, gross official reserves stood at USD 9.52 billion on March 11, 2014. The next loan tranche of USD 550 million from the IMF will push reserves close to USD 10 billion. Pakistan is set to launch a sale of USD 500 million in euro-bonds in May 2014, and plans to raise billions of dollars under the privatization drive by June of 2014. In addition, Pakistan has received USD 352 million under the Coalition Support Fund, reimbursements for assistance in the U.S.-led coalition's Afghanistan war effort. [xxiv] An increase in foreign investment and remittances by overseas Pakistanis has also helped strengthen the Pakistani Rupee. Remittances increased by 11 % to USD 10.2 billion during the first eight months of this fiscal year. [xxv] These indicators provide a positive outlook on Pakistan's economic growth and ability to meet financial obligations, as well as the country's ability to initiate much-needed power and infrastructure projects.

### Granting NDMA Status to India:

In 2012, Pakistan and India signed three agreements to remove bottlenecks and facilitate cross border trade by December 2013. [xxvi] Pakistan has delayed granting MFN / Non-Discriminatory Market Access (NDMA) status to India. Reported reasons for the delay include concerns over the implications for, and results of, India's forthcoming elections. Pakistan has stated it will conclude a liberalized trade deal with India, but only after a new government is formed following the announcement of India's election results, expected in May 2014. [xxvii]

## Pakistan Trade Overview

Pakistan's trade deficit remains a challenge for economic stability as it continues to deplete foreign currency reserves. This deficit is mainly attributed to large imports of expensive petroleum products and limited value-added exports, consisting mainly of textile products. Since 2005, Pakistan's total trade has almost doubled from USD 8.18 billion in FY05 Q3 to USD 16.33 billion in FY14 Q3; however, the trade deficit has also increased by 244.72% over the same period, from USD 1.15 billion to USD 3.97 billion.

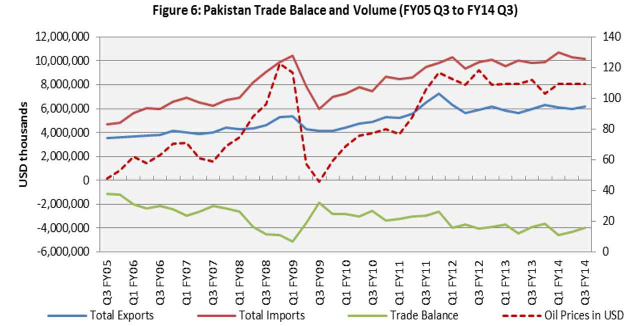
| Table 4: Import and Export Growth FY05 Q3 vs. FY14 Q3 (USD billions) | | | |
|---|---|---|---|
| | **FY05 Q3** | **FY14 Q3** | **% Change from FY05 Q3** |
| Imports | 4.67 | 10.15 | 117.55% |
| Exports | 3.51 | 6.18 | 75.82% |
| Trade Deficit | 1.15 | 3.97 | 244.72% |
| ***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project* | | | |

In a YoY comparison for the quarter under review, an increase in both imports and exports was recorded for the period FY13 Q3 vs. FY14 Q3. Although the percentage growth in exports outpaced the percentage growth in imports, the deficit grew because the value of imports was nearly double that of exports.

| Table 5: Import and Export Growth FY13 Q3 vs. FY14 Q3 (USD billions) | | | |
|---|---|---|---|
| | **FY13 Q3** | **FY14 Q3** | **% Change from FY13 Q3** |
| Imports | 9.82 | 10.15 | 3.40% |
| Exports | 5.94 | 6.18 | 4.01% |
| Trade Deficit | 3.88 | 3.97 | 2.47% |
| ***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project* | | | |

The relationship between the price of crude oil and Pakistan's import bill is depicted in **Figure 6.**

**Figure 6: Pakistan Trade Balace and Volume (FY05 Q3 to FY14 Q3)**




**Source:** Trade Data from State Bank of Pakistan; Oil Prices from Statistical Data Warehouse, European Central Bank; Exchange Rate from Oanda; Calculations performed by Trade Project

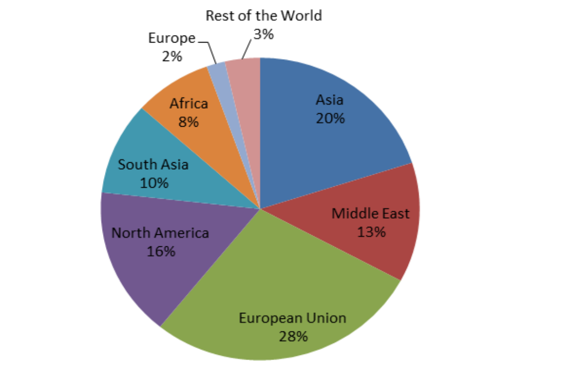
### Pakistan's Trade with World Regions

Asia[8] is the largest trading region for Pakistan, accounting for a 29.57% share of total trade volume (exports and imports) in FY14 Q3. Asia, the Middle East (28.57%) and the European Union (16.89%) collectively accounted for USD 12.26 billion (75.03%) of Pakistan's total trade with the world, worth USD 16.33 billion.

**8** For the purposes of this report, "Asia" refers to the following countries: Armenia, Azerbaijan, Brunei, Cambodia Kampuchea, China, Georgia, Hong Kong, Indonesia, Japan, Laos, Macao, Malaysia, Mongolia, Myanmar, North Korea, Philippines, Singapore, Thailand, Timor-Leste, Turkey and Viet Nam. South Asian and Middle Eastern countries, and Central Asian Republics, are categorized separately.

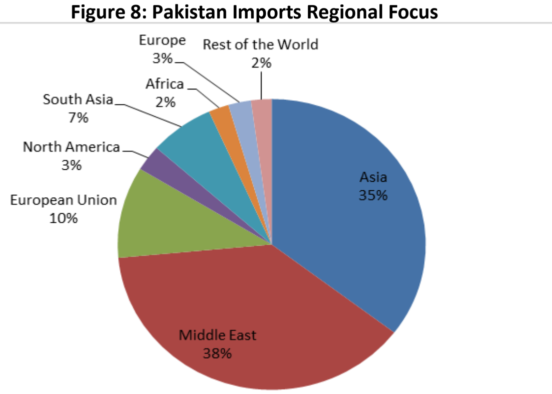
**Figures 7 and 8** provide an overview of Pakistan's regional exports and imports, respectively.

**Figure 7: Pakistan Export Regional Focus**




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**Figure 8: Pakistan Imports Regional Focus**

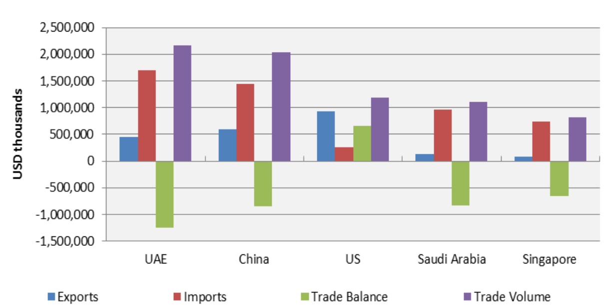



***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

## Top 5 Trading Partners

The top five trading partners accounted for USD 7.31 billion (44.77%) of the total trade volume of Pakistan in FY14 Q3. In this quarter, the UAE was Pakistan's largest trading partner with a total trade value of USD 2.17 billion (13.26%), followed by China with USD 2.04 billion (12.47%). Trade with the US was valued at USD 1.18 billion (7.24%), Saudi Arabia at USD 1.12 billion (6.79%), and Singapore at USD 818.84 million (5.01%). Pakistan has a negative trade balance with all of its top five trading partners except the US, with which it has a trade surplus of USD 667.66 million. In FY14 Q2, China was Pakistan's largest trading partner, and UAE was the second largest. In FY13 Q3, Pakistan's top five trading partners were the UAE, China, the US, Saudi Arabia, and Kuwait. Singapore was Pakistan's sixth largest trading partner at that time.

**Figure 9: Top 5 Trading Partners**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

## Trade in Services Sector in Pakistan

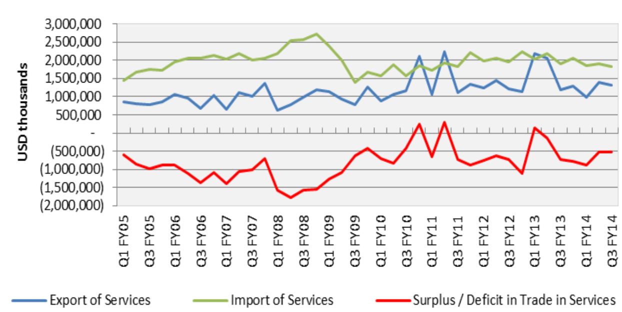
The services sector is growing globally and its contribution to the GDP of many developed and developing countries is greater than 50%. [xxviii] The contribution of the services sector to Pakistan's GDP for 2013 was 57.62% [xxix] with an annual growth rate of 3.71%. [xxx] The total volume of trade in services has grown in the last ten years for Pakistan. A review since the baseline of FY05 Q3 shows that Pakistan's services sector has witnessed a trade deficit[9] but exports are catching up with imports to narrow the deficit. **Table 6 and Figure 10** demonstrate that services exports grew by 67.09% between FY05 Q3 and FY14 Q3. A YoY comparison reveals an increase in services exports by 9.82%, from USD 1.20 billion in FY13 Q3 to USD 1.32 billion in FY14 Q3. Imports, however, decreased by 4.25% from USD 1.92 billion in FY13 Q3 to USD 1.84 billion in FY14 Q3. This resulted in a 27.87% decrease in the services trade deficit, from USD 715.51 million in FY13 Q3 to USD 516.09 million in FY14 Q3.

**Table 6: Trade in Services FY05 Q3 and FY14 Q3 (USD billions)**

| | FY05 Q3 | FY14 Q3 | Net Change from FY05 Q3 | % Change from FY05 Q3 |
|---|---|---|---|---|
| Imports | 1.76 | 1.84 | 0.08 | 4.55% |
| Exports | 0.79 | 1.32 | 0.53 | 67.09% |

***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**Figure 10: Trade in Services**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

## Export of Services[10]

Pakistan exported USD 1.32 billion in FY14 Q3, primarily:

- Government Services[11]: USD 523.40 million
- Transportation Services[12]: USD 284.48 million
- Communication, Computer and Information Services[13]: USD 200.62 million
- Other Business Services[14]: USD 239.03 million

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**9** With the exception of surplus trade in services for the following quarters: FY10 Q4, FY11 Q2 and FY13 Q1

**10** Examples of the services that fall under each category are provided in subsequent footnotes; for a detailed description of each category please see http://www.sbp.org.pk/ecodata/dt.pdf

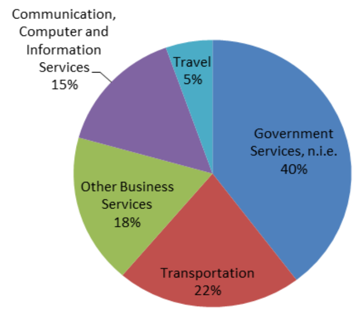
**11** Examples of Government Services include: Remittances received by Foreign missions in Pakistan, Military units and agencies, etc.

**12** Examples of Transportation Services include: Charter of Pakistani ships with crew, Passage earning of Pakistan Air Companies, etc.

**13** Examples of Communication, Computer and Information Services include: Telecommunication services, software consulting services, etc.

**14** Examples of Other Business Services include: Financial, Insurance, Construction, Personal Cultural and Recreational, Royalties and License Fees, etc.

Figure 11: Exports in Services



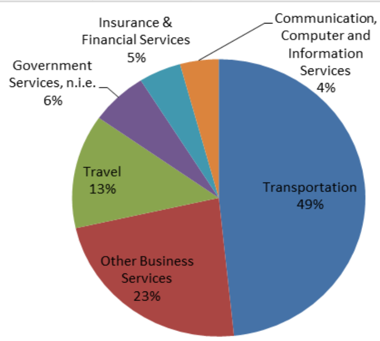

**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

## Imports of Services[15]

In FY14 Q3, Pakistan imported USD 1.84 billion worth of services, primarily:

- Transportation Services[16]: USD 887.35 million
- Other Business Services[17]: USD 424.94 million
- Travel Services[18]: USD 243.94 million
- Insurance & Financial Services[19]: USD 85.59 million

Figure 12: Import of Services




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**15** Examples of the services that fall under each category are provided in subsequent footnotes; for a detailed description of each category please see http://www.sbp.org.pk/ecodata/dt.pdf

**16** Examples of Transportation Services include: Freight on cash imports, passage earnings of foreign airlines, etc.

**17** Examples of Other Business Services include: Construction, Personal Cultural and Recreational, Royalties and License Fees, etc.

**18** Examples of Travel Services include: Payment through exchange companies, recreational tours abroad, etc.

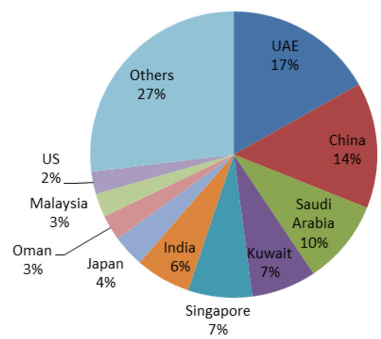
**19** Examples of Financial and Insurance services include: Bank commission & charges, Insurance charges, etc.

# Pakistan Import Markets and Product Groups

## Imports by Country

Pakistan's import portfolio remains undiversified in FY14 Q3: five countries accounted for 55.15% of total imports and the top 10 countries accounted for 73.09%. Pakistan's reliance on a small number of countries for imports has increased over time. Currently, Pakistan's top five import suppliers, in order of value, are the UAE, China, Saudi Arabia, Kuwait, and Singapore. Together, these countries constitute 55.15% of Pakistan's total import bill, or USD 5.60 billion for FY14 Q3.

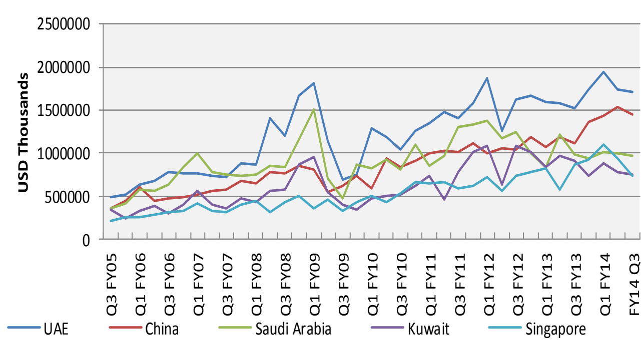
Figure 13: Pakistan's Top 10 Imports by Country




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

This is an increase of 219.22% compared to FY05 Q3, when Pakistan's top five import suppliers accounted for 37.59% of its import bill (at that time, Japan was among the top five countries for import, Singapore was not). India has become a major source for Pakistan's imports, rising from 11th in FY05 Q3 to 6th in FY14 Q3, with USD 633.12 million worth of imports. **Figure 14** shows the growth trend in imports of Pakistan's FY14 Q3 top five sources.

Figure 14: Top Import Source Countries FY14 Q3




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

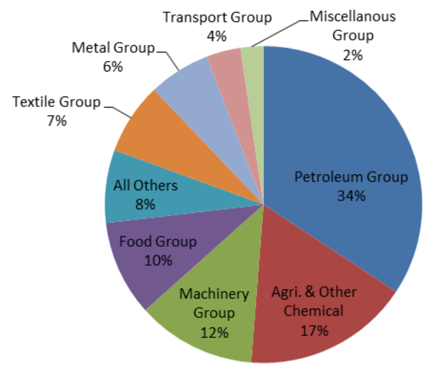
**Table 7: Top Five Import Source Countries: FY13 Q3 v. FY14 Q3 (USD billions)**

| Country | FY13 Q3 % Import Share | FY14 Q3 % Import Share | YoY % Change | FY13 Q3 Value | FY14 Q3 Value | Notable Commodities |
|---|---|---|---|---|---|---|
| UAE | 15.50% | 16.84% | 12.29% | 1.52 | 1.71 | Petroleum products, precious stones & metals, plastic products, and iron & steel [xxxi] |
| China | 11.37% | 14.23% | 29.44% | 1.12 | 1.44 | Electrical equipment, machinery, organic chemicals, and iron & steel [xxxii] |
| Saudi Arabia | 10.02% | 9.56% | -1.35% | 0.98 | 0.97 | Crude Petroleum, plastic products, organic chemicals, and fertilizers [xxxiii] |
| Kuwait | 9.23% | 7.31% | -18.12% | 0.91 | 0.74 | Petroleum products, ferrous waste & scrap, organic chemicals, and plastics products [xxxiv] |
| Singapore | 8.75% | 7.22% | -14.68% | 0.86 | 0.73 | Petroleum products, plastic products, organic and other chemicals [xxxv] |
| **Total** | **54.87%** | **55.15%** | ---- | **5.39** | **5.60** | |

## Imports by Commodity Groups

Petroleum, Agriculture and Chemical, Machinery, and Food groups are Pakistan's top imports, valued at USD 7.43 billion (73.13%) of Pakistan's total USD 10.15 billion import bill in FY14 Q3. These commodity groups' share of the import bill has been growing since base year FY05 Q3, when it was 67.74%. Compared to FY05 Q3, the Petroleum group has witnessed the highest growth rate of 297.76%, the Agriculture and Chemical group grew 124.83%, Machinery grew by 19.82%, and the Food group by 101.38%.

**Figure 15: Import of Services**




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**Petroleum Group:** In FY14 Q3, Pakistan's total imports under the Petroleum group decreased by 0.63% to USD 3.48 billion compared to FY13 Q3. Petroleum product imports decreased by 1.66% to USD 2.05 billion and import of crude petroleum increased by 0.87% to USD 1.43 billion compared to FY13 Q3.

**Agriculture and Chemical Group***:* A YoY increase in this group was recorded at 19.41% when compared with FY13 Q3. Increase in import of fertilizer was recorded at 563.76%, from USD 27.13 million in FY13 Q3 to USD 180.04 million in FY14 Q3.

Other notable import groups were Plastic (USD 430.03 million) and Medicinal products (USD 131.28 million).

**Machinery Group:** In FY14 Q3, import of machinery increased by 33.99% to USD 1.23 billion when compared with FY13 Q3. Major imported products include telecom equipment (USD 285.94 million), power-generating machinery (USD 181.32), and textile machinery (USD 165.19 million).

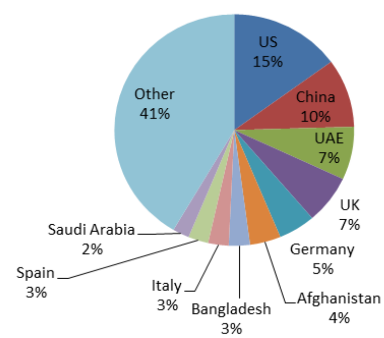
**Food Group:** In FY14 Q3, Pakistan's food import totaled USD 990.04 million, a decrease of 11.37% from USD 1.12 billion in FY13 Q3. This decline in imported food items reflects a decrease in imports of palm oil from USD 520.49 million in FY13 Q3 to USD 433.45 million in FY14 Q3. Other notable commodity imports were tea (USD 86.33 million) and pulses (USD 73.32 million).

# Pakistan Export Markets and Product Groups

## Exports by Country

Pakistan's exports remain undiversified with the top five destination countries (USA, China, UAE, UK and Germany) accounting for 43.72% (USD 2.70 billion) of Pakistan's exports, and the top 10 countries (the top five plus Afghanistan, Bangladesh, Italy, Spain, and Saudi Arabia) accounting for 58.47% (USD 3.61 billion) of Pakistan's total exports for the period FY14 Q3. Compared with FY14 Q2, Pakistan's total exports to the top 5 and top 10 export destination countries declined by 2.88% and 0.45%, respectively, in FY14 Q3. Pakistan's reliance on a small number of countries for the majority of its exports increases its vulnerability to external shocks as the economic performance of these countries can adversely affect Pakistan's exports.

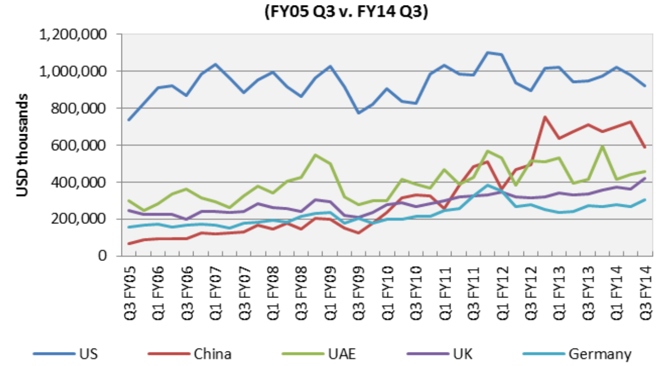
**Figure 16: Top 10 Destinations for Pakistan's Exports**




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

Pakistan's exports in FY14 Q3 increased by 4.01% compared with FY13 Q3, from USD 5.94 billion to USD 6.18 billion. Since FY05 Q3, total exports have increased by 75.82%, from USD 3.14 billion.

**Figure 17: Top 5 Export Destinations (FY05 Q3 v. FY14 Q3)**



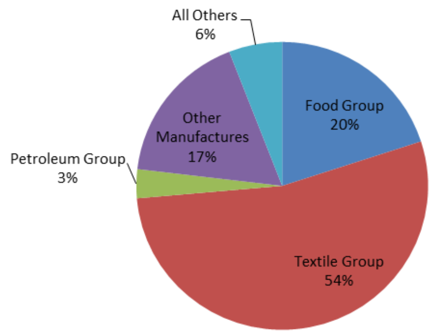

**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

| Table 8: Top Five Export Destination Countries for Commodities: FY13 Q3 v. FY14 Q3 (USD billions) | | | | | | |
|---|---|---|---|---|---|---|
| Country | FY13 Q3 % Export Share | FY14 Q3 % Export Share | YoY % Change | FY13 Q3 Value | FY14 Q3 Value | Notable Commodities |
| US | 15.95% | 14.97% | -2.41% | 0.95 | 0.92 | Cotton, textile articles, apparel and accessories, knitwear [xxxvi] |
| China | 12.02% | 9.58% | -17.15% | 0.71 | 0.59 | Cotton, cereals, slag & ash, and leather products [xxxvii] |
| UAE | 6.97% | 7.40% | 10.30% | 0.41 | 0.46 | Precious stones / metals, mineral fuels /oils, cereals, and textile products [xxxviii] |
| UK | 5.69% | 6.80% | 24.34% | 0.34 | 0.42 | Textile products, cotton, and leather products [xxxix] |
| Germany | 4.62% | 4.98% | 12.22% | 0.27 | 0.31 | Textile products, leather products, cotton [xl] |
| **Total** | **45.25%** | **43.72%** | ---- | **2.69** | **2.70** | |

## Exports by Commodity Group

In FY14 Q3, Textile was Pakistan's largest export sector with a market share of 53.62%, followed by the Food group which contributed 20.00% to Pakistan's total export value.

**Figure 18: Pakistan's Exports by Group**




***Source:*** *Data from State Bank of Pakistan, calculations performed by Trade Project*

**Textile:** The textile sector continues to dominate Pakistan's export portfolio. Sector exports have increased 52.74% since FY05 Q3, from USD 2.17 billion to USD 3.31 billion in FY14 Q3. A YoY analysis shows an increase of 2.89% but exports from the sector decreased by 2.67% compared with FY14 Q2. The decrease was not anticipated; textile exports were expected to increase as a result of the European Parliament granting Generalized System of Preferences (GSP) Plus status to Pakistan effective January 2014. [xli] Cotton cloth, knitwear, bed-wear, readymade garments, and cotton yarn are the main exports from this sector.

**Food:** Sector exports have increased 201.86% since FY05 Q3, from USD 409.48 million to USD 1.24 billion in FY14 Q3. Between FY13 Q3 and the period under review, the increase was recorded at 7.55%. Value-wise, rice, sugar, and fruits are the top exports from this sector.

- Rice exports increased by 13.75% from USD 574.51 million in FY13 Q3 to USD 653.52 million in FY14 Q3
- Sugar exports increased by 4.81% from USD 126.99 million in FY13 Q3 to USD 133.09 million in FY14 Q3
- Fruit exports increased by 7.52% from USD 94.49 million in FY13 Q3 to USD 101.60 million in FY14 Q3

**Other Manufactures:** This category includes chemical and pharmaceutical products, sports goods, leather products, cement, surgical goods, and engineering goods, among others. Exports from this sector increased by 58.40% from USD 672.04 million in FY05 Q3 to USD 1.06 billion in FY14 Q3. A YoY comparison reveals a decrease of 3.10% from USD 1.10 billion in FY13 Q3 to USD 1.06 billion in FY14 Q3.

- A decrease of 27.92% was seen in engineering goods, from USD 92.99 million in FY13 Q3 to USD 67.03 million in FY14 Q3
- Chemical and pharmaceutical products decreased by 8.88% from USD 294.96 million in FY13 Q3 to USD 268.78 million in FY14 Q3

## Trade Overview with South Asian Association of Regional Cooperation (SAARC)

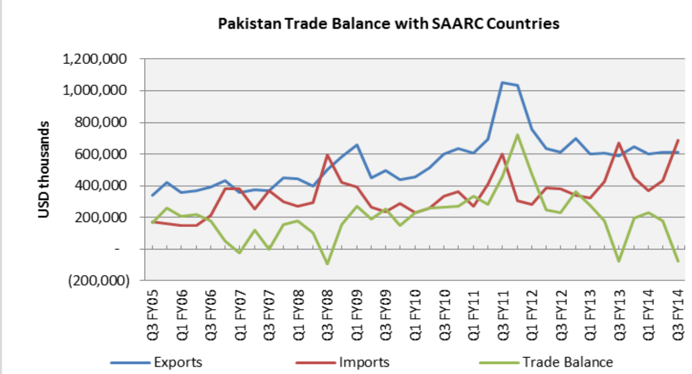
SAARC member countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The region covers 5.13 million square kilometers of land with a population of 1.66 billion people and a combined GDP at official exchange rate[20] of USD 2.27 trillion, exports of USD 1.09 trillion, and imports of USD 609 billion. [xlii]

Pakistan's trade with the region has increased during the last ten years. Between FY05 Q3 and FY14 Q3, total trade volume has increased by USD 781.94 million (151.27%), from USD 516.92 million to USD 1.30 billion.

Pakistan's exports have increased by USD 269.64 million (78.80%) from USD 342.18 million in FY05 Q3 to USD 611.82 million in FY14 Q3.

Pakistan's imports from the region increased by USD 512.30 million (293.17%), from USD 174.74 million to USD 687.05 million. As seen in **Figure 19**, Pakistan's trade with SAARC countries exhibits volatility, which is partly a result of low trade volumes within the SAARC region. As trade increases and bi-lateral relations strengthen, levels are expected to stabilize.

**Figure 19: Pakistan Trade with SAARC Countries**



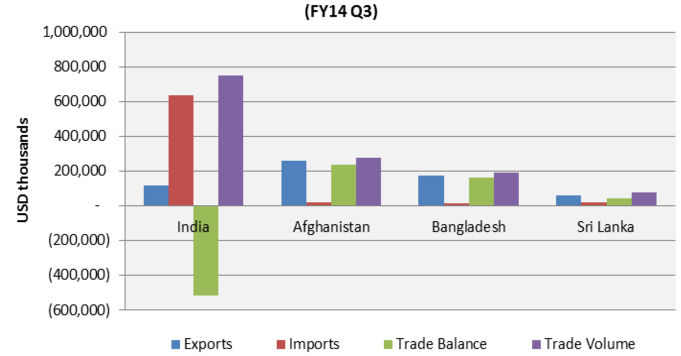

**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

Pakistan's existing trade with SAARC countries accounts for 7.95% of its total trade volume. Trade value increased by 3.36% YoY, from USD 1.26 billion in FY13 Q3 to USD 1.30 billion in FY14 Q3. Pakistan's exports to SAARC countries totaled USD 611.82 million and imports accounted for USD 687.05 million, a trade deficit of USD 75.23 million.

Trade statistics between Pakistan and SAARC countries are summarized in **Table 9**.

India, Afghanistan, Bangladesh and Sri Lanka are the top four SAARC trading partners for Pakistan, collectively accounting for 99.49% of the total trade volume between Pakistan and the SAARC region in FY14 Q3.

**Figure 20: Pakistan's Top 4 SAARC Trading Partners (FY14 Q3)**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

**20** "This entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. A nation's GDP at official exchange rates (OER) is the home-currency-denominated annual GDP figure divided by the bilateral average US exchange rate with that country in that year." https://www.cia.gov/library/publications/the-world-factbook/docs/notesanddefs.html?fieldkey=2195&alphaletter=G&term=GDP%20(official%20exchange%20rate (accessed on May 21, 2014)

**21** To facilitate investors and exporters, Pakistan has established ten export processing zones across the country. These EPZs offer duty free imports of machinery, equipment, and materials. EPZs allow exemption from sales tax and duties on inputs and facilities such as electricity, gas, water, and telecommunications for a certain period. All imports and exports from these EPZs are recorded separately during Trade Statistics compilation. **Source:** Export Processing Zone Authority, available at: http://www.epza.gov.pk/incentives.html (accessed on February 7, 2014).

**Table 9: SAARC Trade Summary (USD thousands)**

| | Exports | | Imports | | Trade Balance | | Trade Volume | |
|---|---|---|---|---|---|---|---|---|
| **Country** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** |
| Afghanistan | 227,997 | 257,931 | 11,661 | 19,096 | 216,336 | 238,835 | 239,658 | 277,027 |
| Bangladesh | 182,915 | 175,899 | 13,479 | 15,687 | 169,436 | 160,212 | 196,394 | 191,587 |
| Bhutan | 80 | 14 | 163 | 0 | -84 | 14 | 243 | 14 |
| India | 79,821 | 114,665 | 623,787 | 633,115 | -543,965 | -518,450 | 703,608 | 747,781 |
| Maldives | 1,815 | 2,067 | 1 | 499 | 1,813 | 1,569 | 1,816 | 2,566 |
| Nepal | 1,090 | 474 | 10 | 71 | 1,080 | 403 | 1,100 | 546 |
| Pakistan-EPZ[21] | 4,066 | 2,908 | 1,731 | 649 | 2,334 | 2,259 | 5,797 | 3,557 |
| Sri Lanka | 91,378 | 57,856 | 16,660 | 17,928 | 74,718 | 39,928 | 108,038 | 75,784 |
| **Total South Asia** | **589,162** | **611,815** | **667,492** | **687,046** | **-78,330** | **-75,230** | **1,256,653** | **1,298,861** |
| **Total World** | **5,606,390** | **5,998,177** | **10,021,997** | **10,299,883** | **-4,415,607** | **-4,301,706** | **15,628,387** | **16,298,059** |

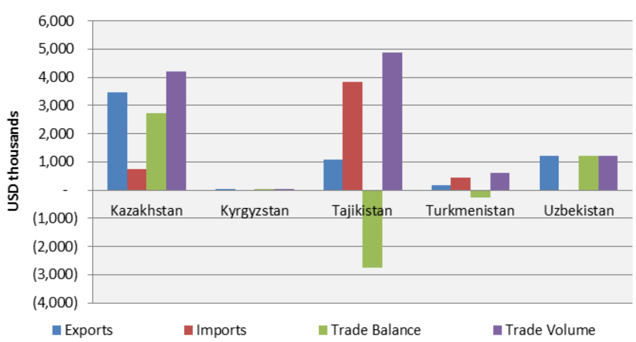
**Source:** Data from State Bank of Pakistan, calculations by Trade Project

## Trade Overview with the Central Asian Republics (CARs)

The Central Asian Republics (CARs), which include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, cover 4 million square kilometers with a population of 64.97 million. [xliii] Individually the CARs are small markets, but collectively they offer huge potential for trade with a combined GDP (real exchange rate, 2013) of USD 336.38 billion. In 2013, CARs' exports were valued at USD 122.31 billion and imports were valued at USD 86.35 billion. [xliv]

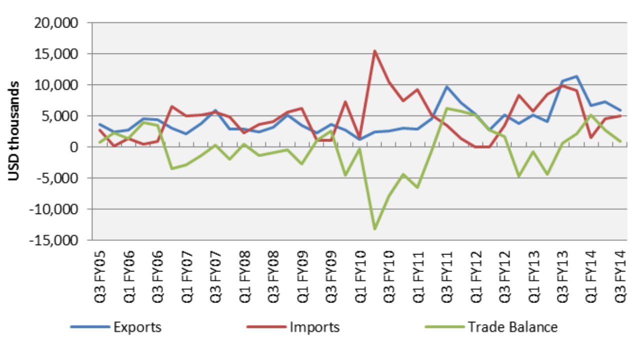
Pakistan's existing trade with the CARs is negligible. In FY14 Q3, Pakistan's exports to CARs totalled USD 5.98 million and imports accounted for USD 4.99 million, resulting in a trade surplus of USD 0.98 million. Both exports to and imports from the CARs account for less than 1% of the total imports and exports of Pakistan per year. Trade statistics with CARs are summarized in **Table 10 and Figures 21 and 22**. Pakistan's exports include leather goods, pharmaceutical products, fruits, medical equipment, and textile (mainly apparel). Imports from the CARs include iron & steel, cotton, zinc, and chemicals. [xlv]

**Figure 21: Pakistan's Trade with CARs (FY14 Q3)**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

**Figure 22: Pakistan's Trade with CARs (FY05 Q3 to FY14 Q3)**




**Source:** Data from State Bank of Pakistan, calculations performed by Trade Project

In 1997, the Central Asian Regional Economic Cooperation (CAREC) Program - an initiative by the Asian Development Bank (ADB) to promote economic cooperation in the region in the areas of Transport, Trade Facilitation, Energy, and Trade Policy - was established. Pakistan joined CAREC in 2010. [xlvi] The initiative will provide Pakistan with improved access not only to the CARs but also to Eastern European markets. Enhancing regional trade and diversification of markets is a priority for the Government of Pakistan in accordance with one of the key themes of its Vision 2025. Exploring trade potential with Central Asian Markets can contribute to both these goals.

On February 18, 2014, Pakistan, Afghanistan, Tajikistan and Kyrgyzstan signed the Central Asia-South Asia 1,000 megawatt (CASA-1000) Agreement in Washington DC [xlvii], which will enable Pakistan to import 700 megawatts of electricity from Kyrgyzstan and Tajikistan via Afghanistan to meet its energy needs. [Xlviii] The World Bank and Islamic Development Bank (IDB) have committed USD 1 billion [xlix] to fund this power import project; the US has also committed USD 15 million for the project. [l]

In addition to electricity imports, the ADB is helping coordinate the Turkmenistan-Afghanistan-Pakistan-India (TAPI) 1,700 kilometer gas pipeline, which will enable Turkmenistan to export natural gas through Afghanistan to Pakistan and India. This public-private partnership project is estimated to cost around USD 7.60 billion. [li] Preparation of the framework for the TAPI pipeline is being fast-tracked, and according to Indian Petroleum & Natural Gas Minister Mr. Veerappa Moily, "*Apart from gas, this TAPI pipeline would usher in peace among the nations as well.*" [lii]

**Table 10: Central Asian Republics Trade Summary**

| | Exports (USD thousands) | | Imports (USD thousands) | | Trade Balance (USD thousands) | | Trade Volume (USD thousands) | |
|---|---|---|---|---|---|---|---|---|
| **Country** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** | **FY13 Q3** | **FY14 Q3** |
| Kazakhstan | 5,334 | 3,470 | 180 | 733 | 5,154 | 2,737 | 5,514 | 4,202 |
| Kyrgyzstan | 118 | 53 | 0 | 0 | 118 | 53 | 118 | 53 |
| Tajikistan | 3,121 | 1,071 | 8,502 | 3,824 | -5,381 | -2,752 | 11,623 | 4,895 |
| Turkmenistan | 1,125 | 169 | 34 | 442 | 1,092 | -273 | 1,159 | 611 |
| Uzbekistan | 897 | 1,217 | 1,236 | 0 | -339 | 1,217 | 2,133 | 1,217 |
| **Total CARs** | **10,596** | **5,980** | **9,952** | **4,998** | **644** | **982** | **20,548** | **10,978** |

**Source:** *Data from State Bank of Pakistan, Calculations performed by Trade Project*

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